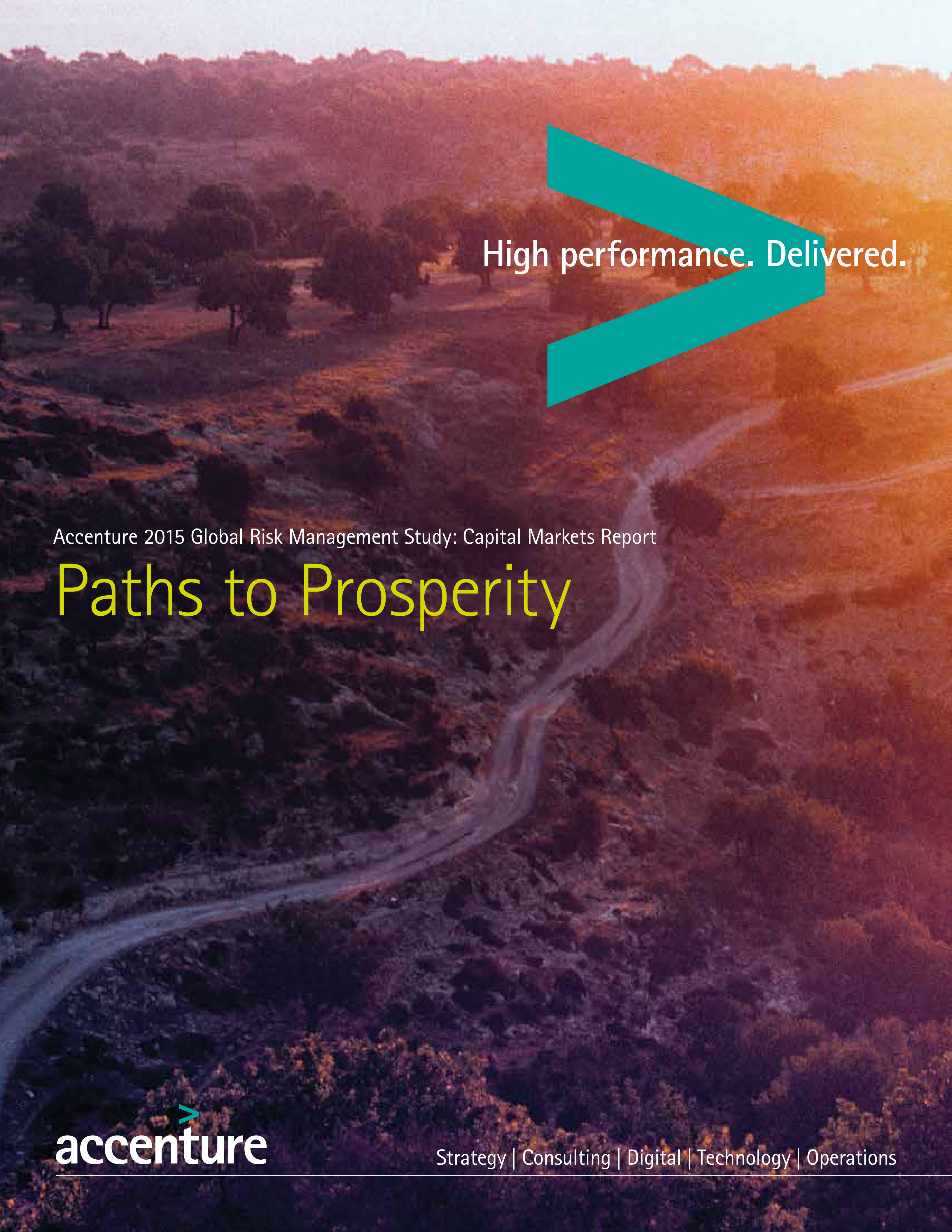

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Accenture 2015 Global Risk Management Study: Capital Markets Report

Paths to Prosperity

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Foreword

Capital markets institutions are facing new challenges as they look for sustainable models of growth. Markets remain volatile, clients have become more demanding and digital disruption has paved the way for new entrants to the industry who are threatening established players.

Against this backdrop, risk management has never been more important. Risk professionals understand the scale of the task ahead. Almost nine in 10 (85%) capital markets respondents to the Accenture 2015 Global Risk Management Study say they believe the risk function is a critical or important enabler of long-term profitable growth. Almost as many (78%) say that balancing this priority with their responsibility for controls and compliance is a potential barrier to this effectiveness.

The ability of Chief Risk Officers to resolve this tension will be central to the success of capital markets institutions in the years ahead.

Businesses in the capital markets sector face a two-pronged challenge as they work to help ensure they have the right risk management processes in place. Capital markets respondents to the Accenture 2015 Global Risk Management Study are:

- Working to understand what the new environment implies for the discipline of risk management – and determining what changes still need to be made
- Seeking to identify areas where there is a gap to be closed, with priorities that include:
  - Strengthening integration between risk and finance
  - Bringing operational risk management back to the top of the agenda
  - Recruiting and retaining the talent they need across a very broad spectrum of capabilities
  - Embedding a more consistent risk culture throughout the organization
  - Addressing data shortcomings and moving towards a "single version of the truth"
  - Deriving greater value from analytics tools and technologies
  - Developing strategies to address emerging risk such as cyber and social media risks

"Risk managers are encouraged to develop closer partnerships than ever before with other parts of the business. They should also develop new types of expertise and do more to apply advanced digital technologies in order to enhance their risk management capabilities."

Steve Culp, Senior Managing Director at Accenture Finance & Risk Services

Risk management in the capital markets sector

Key challenges

Capital markets respondents to the Accenture 2015 Global Risk Management Study* face 3 key challenges:

1. Volatile markets
2. Demanding clients
3. Digital disruption

Risks on the horizon

Cautious growth with risks on the horizon.

45% of capital markets respondents to take on additional risk around product development.

60% think market and business risks will become more severe.

5 key priorities

1 Collaboration and integration

Ties between risk and finance could be stronger.

22% of capital markets respondents say risk and finance coordinate closely to drive decision making.

22% have integrated data sources for risk and finance.

2 Operational risk

Digital, social and big data rising.

58% of capital markets respondents expect an increase in the severity of cyber risks.

31% of respondents say they have social media skills to a great extent.

3 The war for talent

Could intensify around specialized skills.

88% of surveyed respondents plan to invest more in risk capabilities in next 2 years.

9% say the risk function has the resources it needs even in specialized areas like emerging risks.

4 Risk culture

Often exists in silos.

10% of capital markets respondents have a strong organization-wide risk culture.

24% expect to have reached this level of maturity in 2 years' time.

5 Data and analytics

Data accuracy and integrity is a critical priority.

38% of capital markets respondents have data management skills to a great extent.

9% say consistent updated data is available organization-wide.

8% say strategic decision-making leverages risk-based analytics tools.

*Accenture 2015 Global Risk Management Study – Capital Markets respondents

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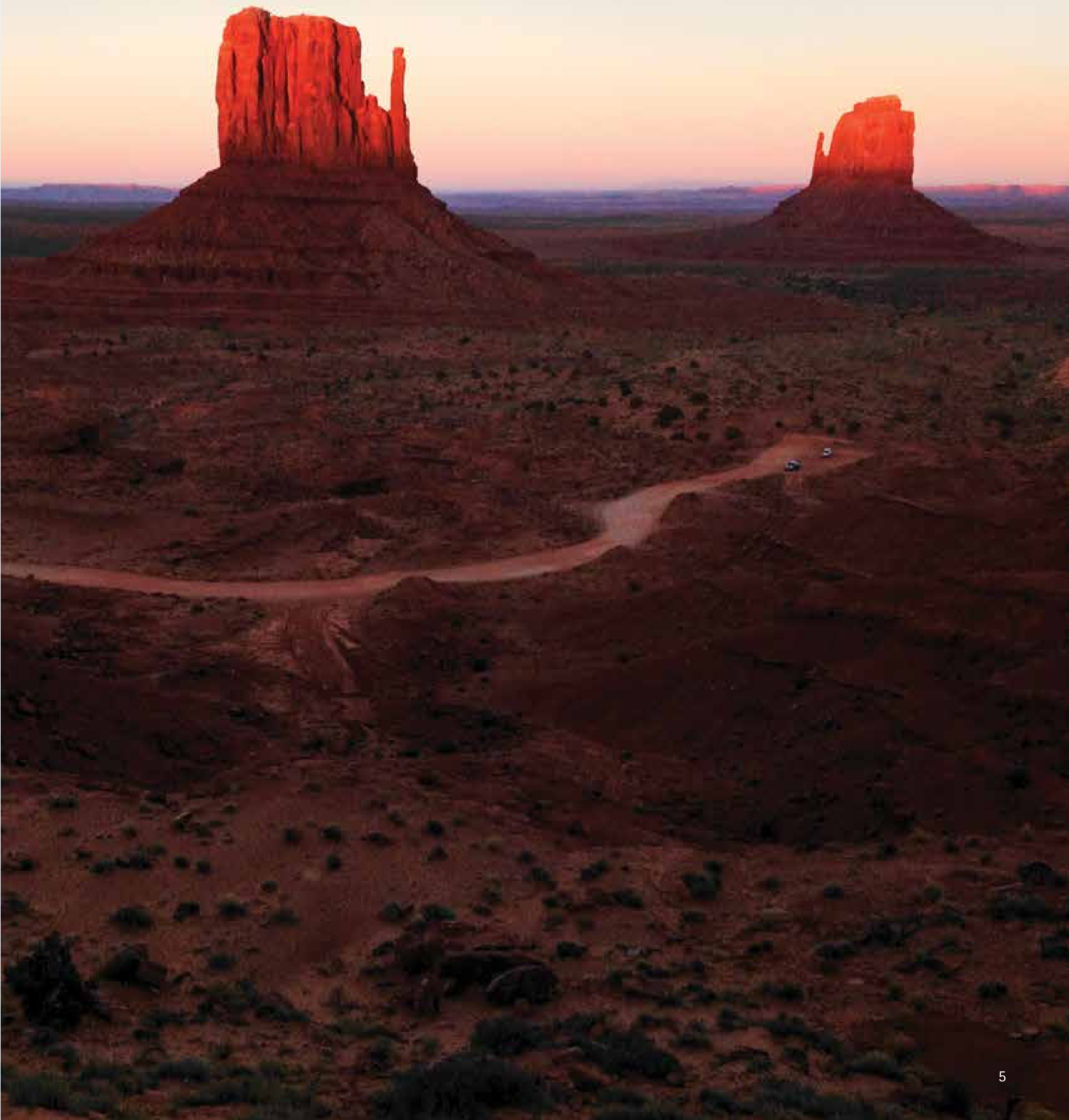


The new environment and context for risk management

Risk management is becoming more balanced and mature in its outlook. While the emphasis on regulatory compliance remains, there is also a shift toward a more growth-oriented, strategic perspective.

Capital markets institutions have spent the past few years investing heavily in meeting regulatory demands and in developing a more rounded and strategic view of risk. They have faced a range of challenges, including the derivatives reform agenda, increased capital constraints, reduced proprietary risk-taking and the commoditization of products.

Now, growth is gradually returning to the agenda, albeit against a backdrop of highly disruptive digital business models and ongoing geo-political and economic volatility. Risk management has a key role to play in helping institutions to navigate this highly complex and dynamic environment.

The leaders of capital markets institutions recognize the need to recalibrate their firms to accommodate these growth strategies. Banks are establishing distinct business models: for example, "flow monsters" rely on processing huge trade volumes at extremely tight spreads; while others are becoming "product specialists" to differentiate themselves, and others still are becoming "primary markets powerhouses" - a model built around the competence to advise or structure profitable but infrequent issuances or deals.

Recalibrating their business is far from straightforward, however.

"

Chief executives are trying very hard to view this as a holistic challenge, because this is not about one department lifting other departments; it requires a cultural and behavioral change across the organization. It is an ongoing challenge and they have not yet figured out how to achieve that: clearly, a lot of work is being done around incentives, pay and performance management, but they will need to go beyond that."

Richard Lumb, Group Chief Executive for Financial Services at Accenture

Moreover, according to the results of Accenture's 2015 Global Risk Management Study, organizations' risk appetites continue to vary widely across the industry. We can also see differences in the types of risk that capital markets institutions are prepared to take.

In the study, 45% of capital markets respondents say that their willingness to take on additional risk through new product development had increased, while 39% have greater appetite for geographical expansion, and 34% for major digital initiatives and business model change (see Figure 1).

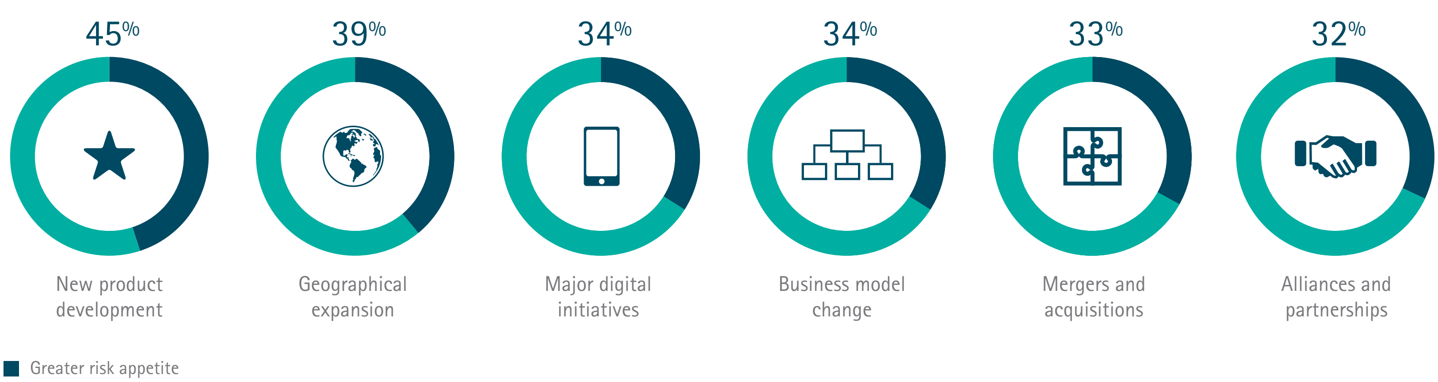
Very often, however, these growth efforts are defensive, at least in part, with institutions looking to use their capital more efficiently, particularly as they feel the pressure to pull back from capital-intensive products and services in the face of regulatory pressure. In the investment banking sector, for example, there are still more banks retrenching or staying still than expanding. By reshaping their organizations and focusing their efforts on higher-margin areas, these banks may be looking to increase their profits in percentage, rather than absolute, terms. For many, there will be less focus on simply adding new revenue to the business.

Simplification and innovation can also go together – moving towards a digital model, for example, is tougher for an institution that incorporates greater complexity. "We are now seeing real consideration of how to create the new digital bank and to move products and customers over to that bank," adds Richard Lumb at Accenture. "That is now a more serious conversation than I have ever seen before."

Our study suggests that capital markets institutions are now starting to move strategically and have a better picture of the business model to which they aspire. In our view, the key focus is to help build an operating model that is appropriate for that vision. And risk management should be at the center of the transition to execution.

Nowhere is this truer than in institutions' response to digital disruption, to support areas of capital markets that are vulnerable to the impact of this revolution. Entirely new business models are emerging, and many institutions are already moving to minimize the threat.

Figure 1. Compared with two years ago, how has senior management's appetite for risk changed when it comes to decisions made in the following areas? (Shows percentage with a greater risk appetite)



Source: Accenture 2015 Global Risk Management Study – Capital Markets respondents

In the wealth management sector, for example, one recent Accenture study found that 50% of European investors now turn to the internet when seeking investment advice.[1] While investors still want face-to-face contact too, they stress the importance of new channels: 38% said it was important that their wealth manager provided the best technology.[2]

Risk management cannot stand on the sidelines as the transition to new business models takes place. In our view, it needs to play an active role in assessing the opportunities and risks of this shift – and this may require Chief Risk Officers (CROs) and their colleagues to push the boundaries of their function.

The voice of risk is being heard more clearly

Risk management has always had a seat at the table, but today its voice is being heard more loudly. CROs have made progress in developing influence in the business's strategic decision-making processes and are no longer focusing purely on regulatory and "license to operate" issues. Nevertheless, there is more work to be done. One strand of this may involve a greater shift to new benchmarks and indicators that take returns into account alongside traditional risk measures.

"Our role in strategy is increasing but we have not yet made that paradigm shift," says a senior executive at a Japanese securities firm. "We certainly have much greater communication with senior management across the business, very often at their request, but the change has been gradual."

Managing emerging threats

Emerging threats require new responses. Cyber security is clearly one issue as connectivity becomes a basic feature of capital markets institutions.

Many companies, for example, have increased their exposure to cyber risks since offering services through mobile and other new channels. These and additional cyber risk exposures must be managed.

The growing use of social media, too, represents a challenge for risk management. As a recent Accenture report on risk in social media points out, 72% of internet users regularly access social networking sites, while large businesses routinely use platforms such as Twitter®, Facebook® and YouTube™, exposing them to dangers ranging from reputational risk to fraud.[3]

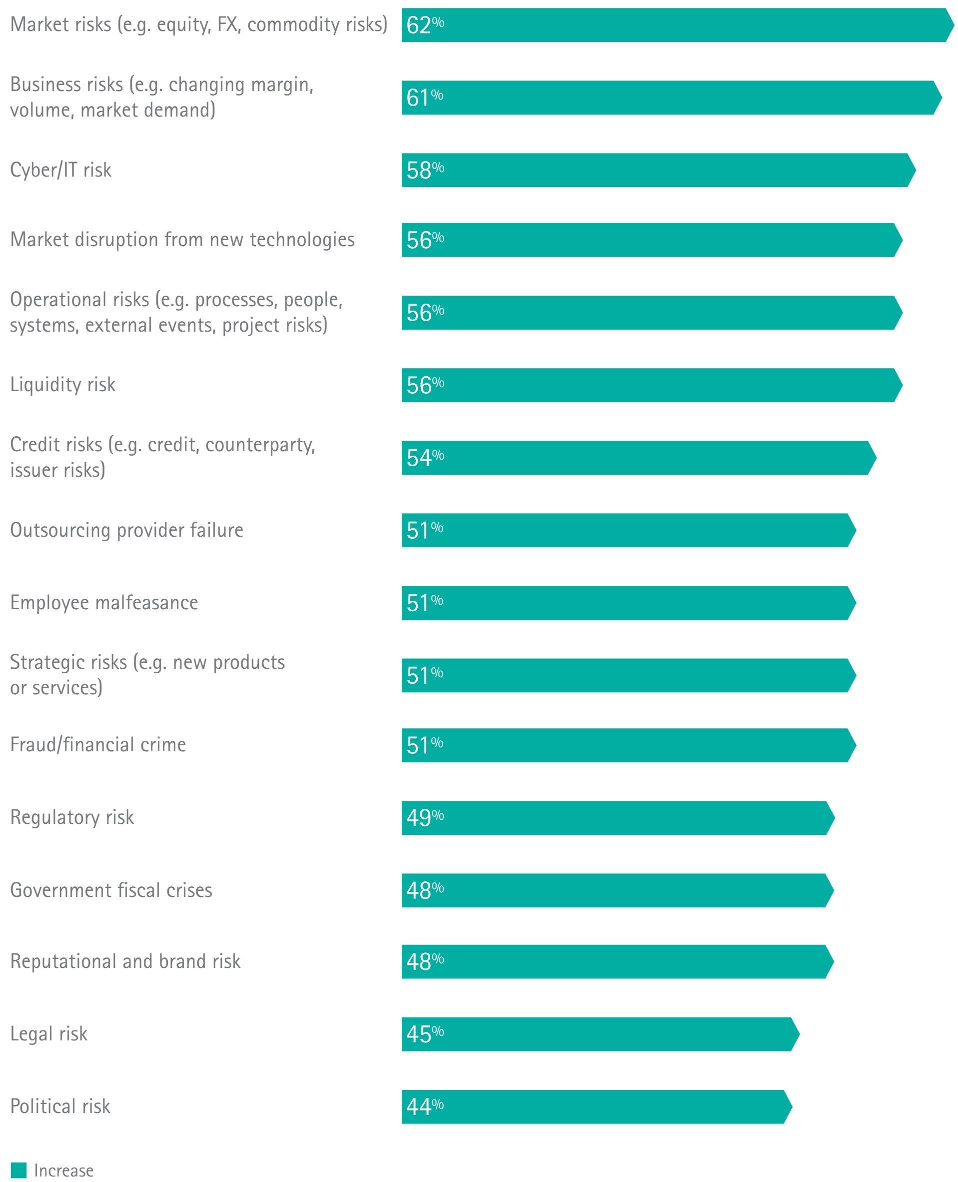
"Social media has grown in popularity and importance faster than most companies' risk management capabilities can currently handle," warns Steve Culp at Accenture.

Clearly, there is a balance to be struck. Neither an unfettered focus on growth, nor an excessive focus on risk, will yield the outcomes that capital markets institutions are seeking. Instead, risk management must steer a course between the traditional risk agenda and the need to support sustainable and innovative strategy that delivers business growth.

The risk environment is becoming more severe

More than half the capital markets respondents in our study expect most risks to become more severe over the next two years – and particularly market risks, business risks, cyber risks, disruption from new technologies and operational risks (see Figure 2). In addition, more than four in five respondents (82%) agree that emerging risks, such as cyber attack, are consuming an ever-growing proportion of the CRO's time and resources. This highlights the need for greater levels of preparedness to anticipate and respond to a growing variety of threats.

Figure 2. Over the next two years, what change is expected to the severity of the following risks facing the business? (Represents percentage expecting an increase in severity)



Source: Accenture 2015 Global Risk Management Study – Capital Markets respondents

One challenge will be to work harder to close the gaps between the many and separate monitoring efforts that seek to detect these dangers. "Forward-thinking institutions are moving toward a surveillance model that is driven by organizational culture rather than specific regulations," as one recent Accenture document, Getting Surveillance Right, put it. "In this model, data is available as needed, not kept in silos, supporting surveillance that takes place in real time and is proactive, rather than reactive."[4]

Capital markets institutions are looking to build greater efficiency and effectiveness into their compliance programs

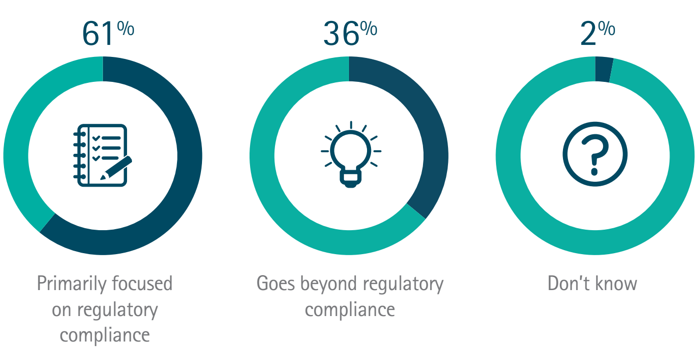
As the risk management function tries to do ever more – both in response to the heightened risk environment and as CROs seek to play a more strategic role – it will need to marshal its resources carefully. For many capital markets institutions, the challenge is to do more with less, or at least the same.

Respondents' views on the evolving nature of the compliance effort highlight this imperative. When delivering regulatory change programs, 61% of capital markets respondents say they are primarily focused on regulatory compliance, but 36% say they now go beyond that (see Figure 3).

In institutions where senior management does go beyond regulatory compliance, almost three-quarters (74%) are anxious to integrate with ongoing longer-term strategic change initiatives. About half the capital markets respondents (42%) talk in terms of reorganizing their operating model in pursuit of strategic business success (see Figure 4).

These institutions recognize that it no longer makes sense to create individual, or "point" solutions for compliance. Instead, organizations may benefit from a more cohesive approach that thinks holistically about business and regulatory outcomes, as well as reducing the resources devoted to basic work. For example, the 2013 iteration of Accenture's global risk management research found that at 60% of banks, at least a quarter of staff time was spent on credit and operational risk activities that could, and should, be automated.[5]

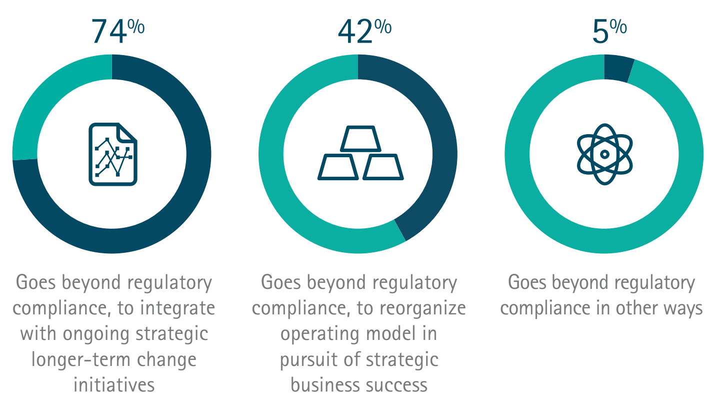
Figure 3. What is the approach of senior management in delivering regulatory change programs?



Note: Due to rounding, total may not equal 100 percent

Source: Accenture 2015 Global Risk Management Study – Capital Markets respondents

Figure 4. How does senior management go beyond regulatory compliance? (Respondents could select all that apply)



Note: Represents only those respondents who selected "Goes beyond regulatory compliance" in Figure 3

Source: Accenture 2015 Global Risk Management Study – Capital Markets respondents

Risk management has become more aligned with strategic planning and a key partner to the business

CROs who are able to make these shifts will find it easier to build on the undoubted progress they have already made in helping their functions mature and become more aligned with broader strategic planning. There is still some distance to travel: currently, just 15% of capital markets respondents say their organizations have a framework that supports major strategic decision-making with input from risk management. Even in two years' time, only 25% of capital markets institutions expect to have moved to fully risk-based decision-making (see Figure 5).

For many capital markets institutions, achieving fully risk-based decision-making can be critical to their business. "For me, the forward-looking aspect of risk management is the key differentiator between a risk function that does just what it is supposed to do and one that also adds value," says Enrique Dick, Head of US Risk Management at Allianz Global Investors. "We don't want to be a risk function that is there just to solve the problems; we want to help anticipate the problems."

In our view, a larger number of organizations should recognize the vital role that risk plays in providing oversight across the business and connecting different strategic plans.

By bringing CROs into the discussion from the outset, capital markets institutions can help deliver better outcomes and avoid wasting time and money on projects that later have to be cancelled or scaled back.

This was the priority, for example, at LPL Financial, where Chief Risk Officer Michelle Oroschakoff was appointed in June 2013. "Before my arrival, the risk function had reported at various times to the CFO and to the head of operations, but now it reports directly to the CEO," she explains. "I'm on the firm's management committee and I attend every board meeting – there is a tight connection between business development and risk, we want to make sure we are making the best use of our firm's resources and avoid getting too far down the road before assessing potential risk issues."

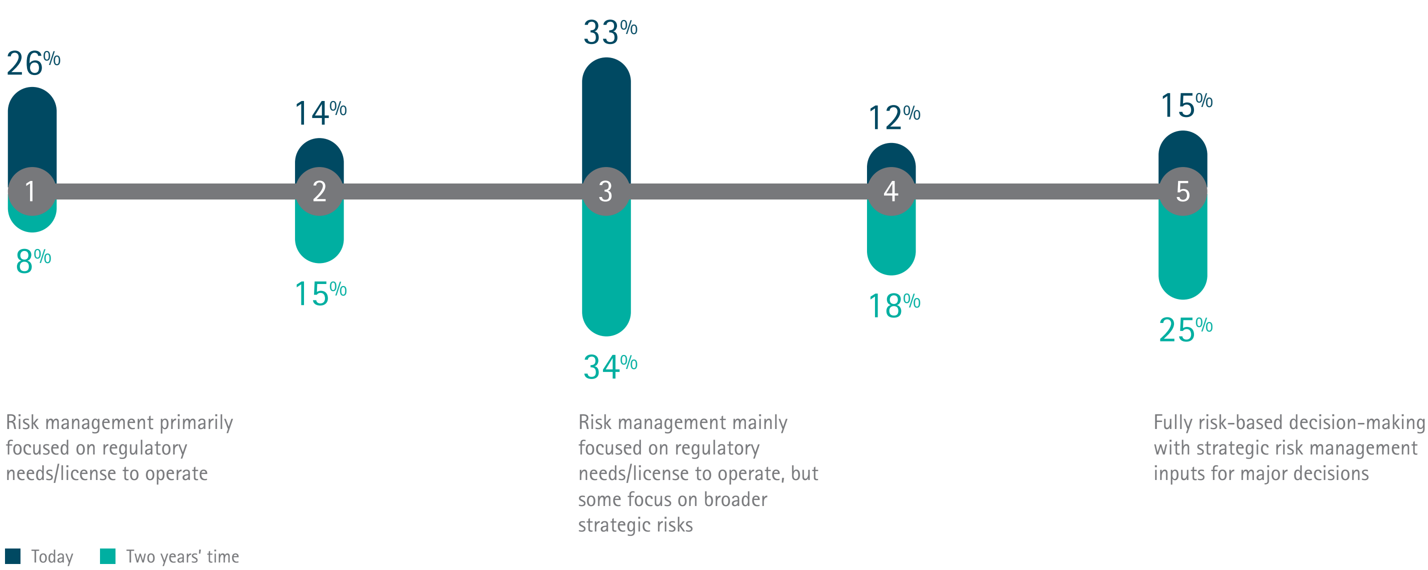
Risk management to strike a balance between the enabling business partnering aspects of its role and the more traditional controlling aspects

At the same time, this new emphasis requires different skills from senior risk professionals. We believe that they should develop more commercial instincts and move towards a facilitating role if they are not to be seen by business colleagues as potential blockages standing in the way of innovation and growth.

The value to the business of risk management must also be expressed through more articulate communication.

Figure 5. Which of the following statements best describes the institution's stage of maturity in terms of risk-based decision-making?

Please indicate where the institution's risk function currently performs on each scale using scores between 1 and 5. Using the same scale, please also indicate a target rating the risk function is to achieve within two years.



Source: Accenture 2015 Global Risk Management Study – Capital Markets respondents

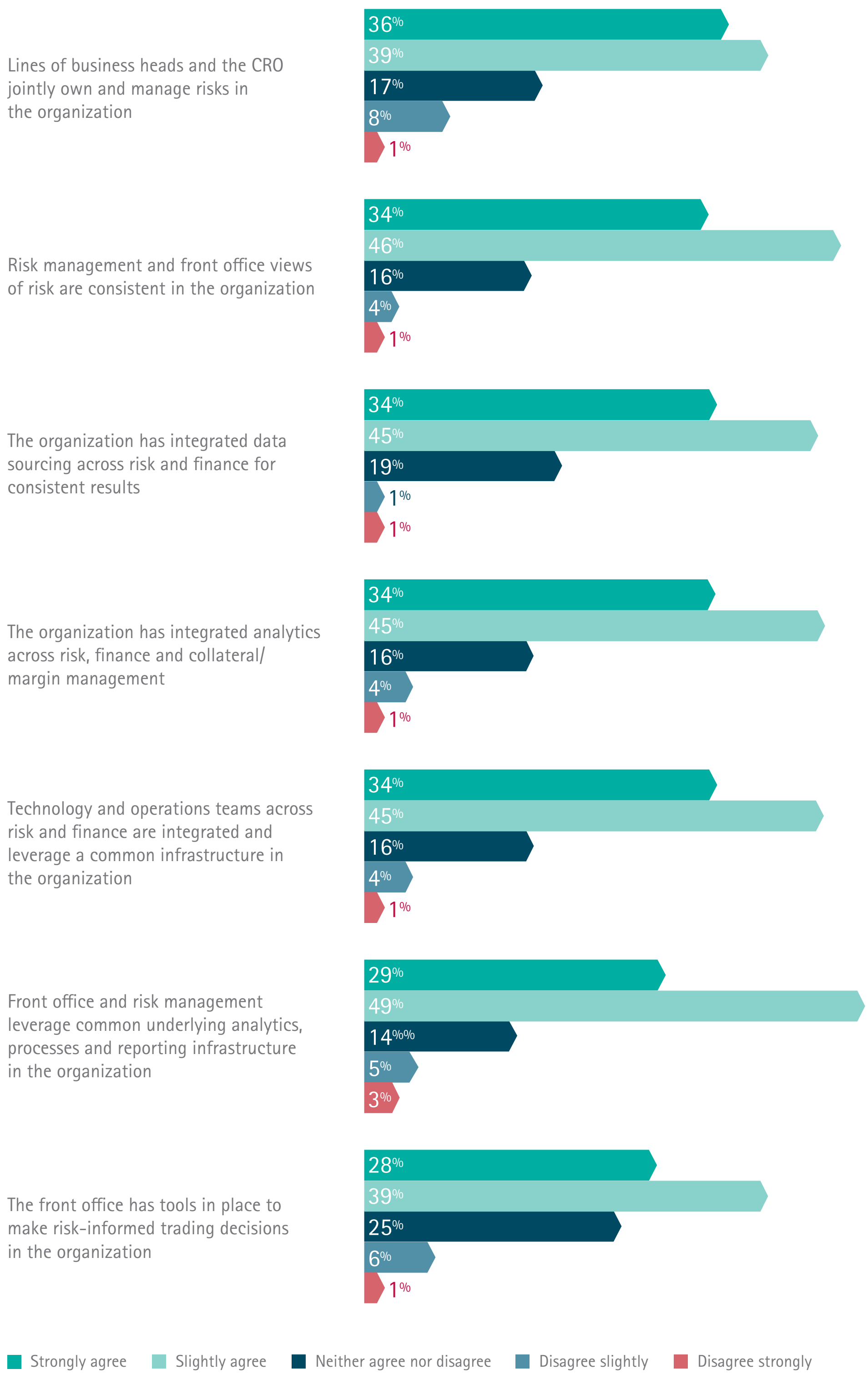
Currently, just 36% of capital markets respondents in our study agree strongly that business heads and the CRO jointly own and manage risks in the organization; only 34% agree strongly that both the risk function and the business have consistent views of risk (see Figure 6). That is not to say that risk management and the business should always hold the same views, but there is scope for a more collaborative relationship built around common goals and strategies. In our view, there must be a balance between risk and reward.

Seeking that balance will require CROs to set out the business case for strategic initiatives, with greater use of scenario-testing and other forward-looking analyses. "The business is increasingly looking for more information from risk management," says a senior risk professional at a Japanese securities firm. "For example, they require more simulations around what will happen if they implement a new product in terms of its impact on capital and liquidity positions."

Too much information, on the other hand, will cause overload: part of the skill as the risk function seeks a greater business partnering role will be to focus on what matters most.

"People running the firm aren't going to spend 24 hours a day thinking about risk issues, so we have to give them relevant, actionable information in the relatively short amount of time they have to devote to this," warns Aaron Brown, Chief Risk Manager at AQR Capital Management. "You don't want to be bombarding people with 100 pages of risk information every day; you want to tell them fewer but more useful things."

Figure 6. Please indicate the level of agreement with the following statements.



Note: Due to rounding, total may not equal 100 percent
Source: Accenture 2015 Global Risk Management Study – Capital Markets respondents

What makes a risk master?

10%

Around 1 in 10 respondents to the Accenture 2015 Global Risk Management Study* are "risk masters".

Better handle on regulatory and compliance

37% of risk masters believe strongly that regulatory change is receding in relation to other requirements.

25% of non-risk masters see regulatory change receding in the same way.

Stronger focus on profitable growth

61% of risk masters believe their risk function can play a critical role in enabling profitable growth.

36% of non-masters feel the same.

54% of risk masters believe they can help enable this growth "to a great extent".

35% of non-masters report the same view.

Stronger focus on emerging risks

61% of risk masters agree strongly that emerging risks, such as cyber and digital, are consuming a greater proportion of the CRO's time.

35% of non-risk masters feel strongly about this.

Growing digital experience

61% of risk masters agree strongly that they employ dedicated technology specialists to help manage digital risk.

27% of non-masters feel the same.

More extensive use of analytics

More risk masters make extensive use of analytics to manage key risk categories including fraud and financial crime, cyber and IT risk, and credit, market and regulatory risks.

Risk masters are also more likely to be investing heavily in digital technologies.

* Accenture 2015 Global Risk Management Study – all respondents

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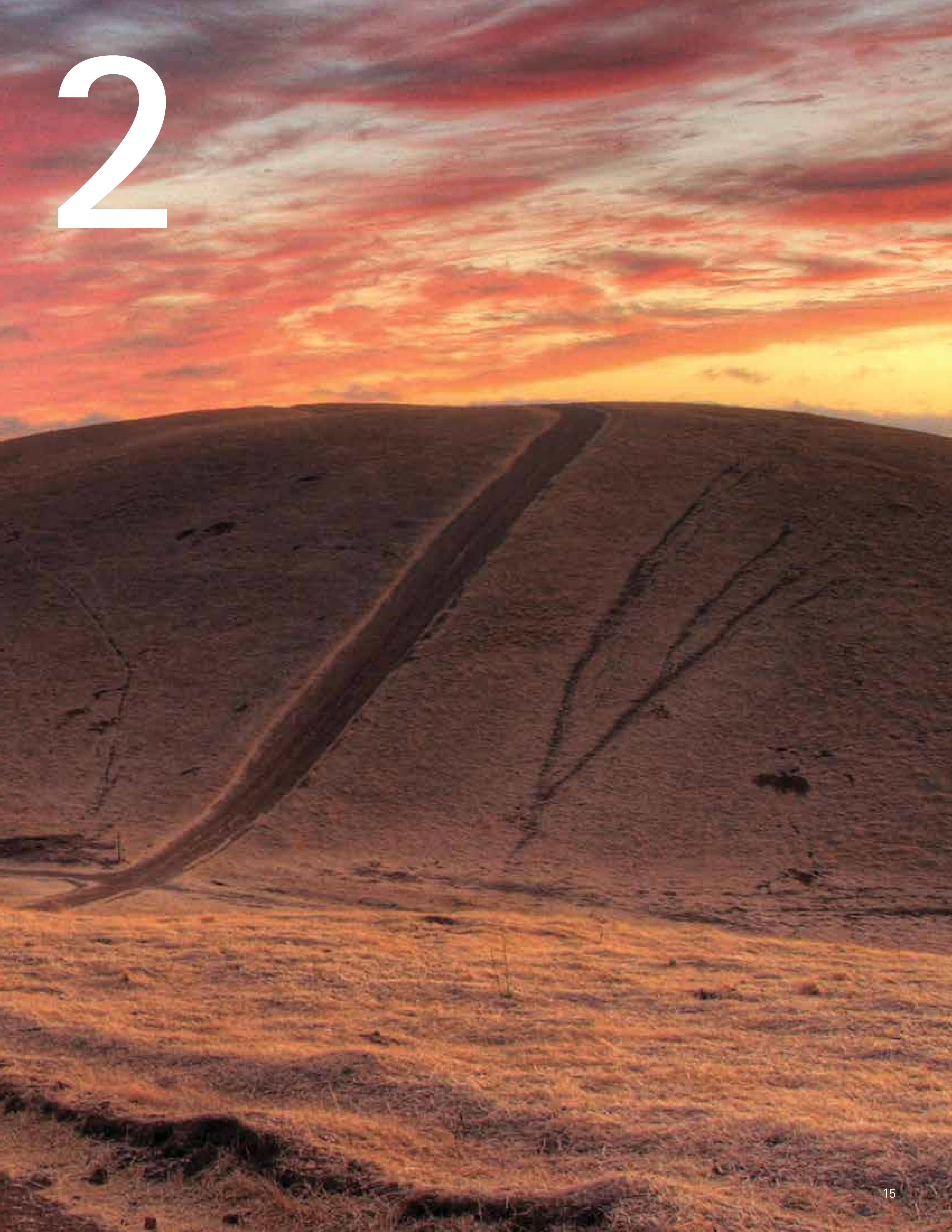


Bridging the gap

For risk management, keeping pace with the rise of digital and the competitive business challenges facing the industry points to urgent action across six key areas.

Priority 1

Strengthen collaboration and integration between risk management and finance

Finance and risk face many of the same challenges: how to build business and operating models that are agile, flexible and suitable for long-term growth; how to cope with the increasing regulatory burden in a cost-effective fashion; how to reduce duplication and complexity; and how to build more efficient and effective functions that can drive more valuable business insight.

Against this backdrop, it is logical for finance and risk to work more closely together. Respondents to our survey concede, however, that there is still progress to be made strengthening ties between the two functions.

In practice, for example, few capital markets respondents say that risk and finance coordinate closely on the development and maintenance of risk and capital models to drive decision-making. Similarly, few respondents say risk management and finance use integrated data sources (see Figure 7).

Of course, risk management and finance should continue to have different perspectives and responsibilities. In most capital markets organizations, however, there is scope for much better coordination and consistency in the application of tools and processes. These functions must move beyond their silos to forge a more strategic view, developing processes that are flexible enough for roles to be defined according to evolving needs and circumstances. Their joint challenge is to protect the institution's reputation and enhance its growth prospects.

At the same time, the increasing focus on capital and liquidity issues also means that the role and profile of treasury has been elevated within many institutions. Increasingly therefore, finance, risk and treasury must form tripartite relationships in which information flows freely and seamlessly between them.

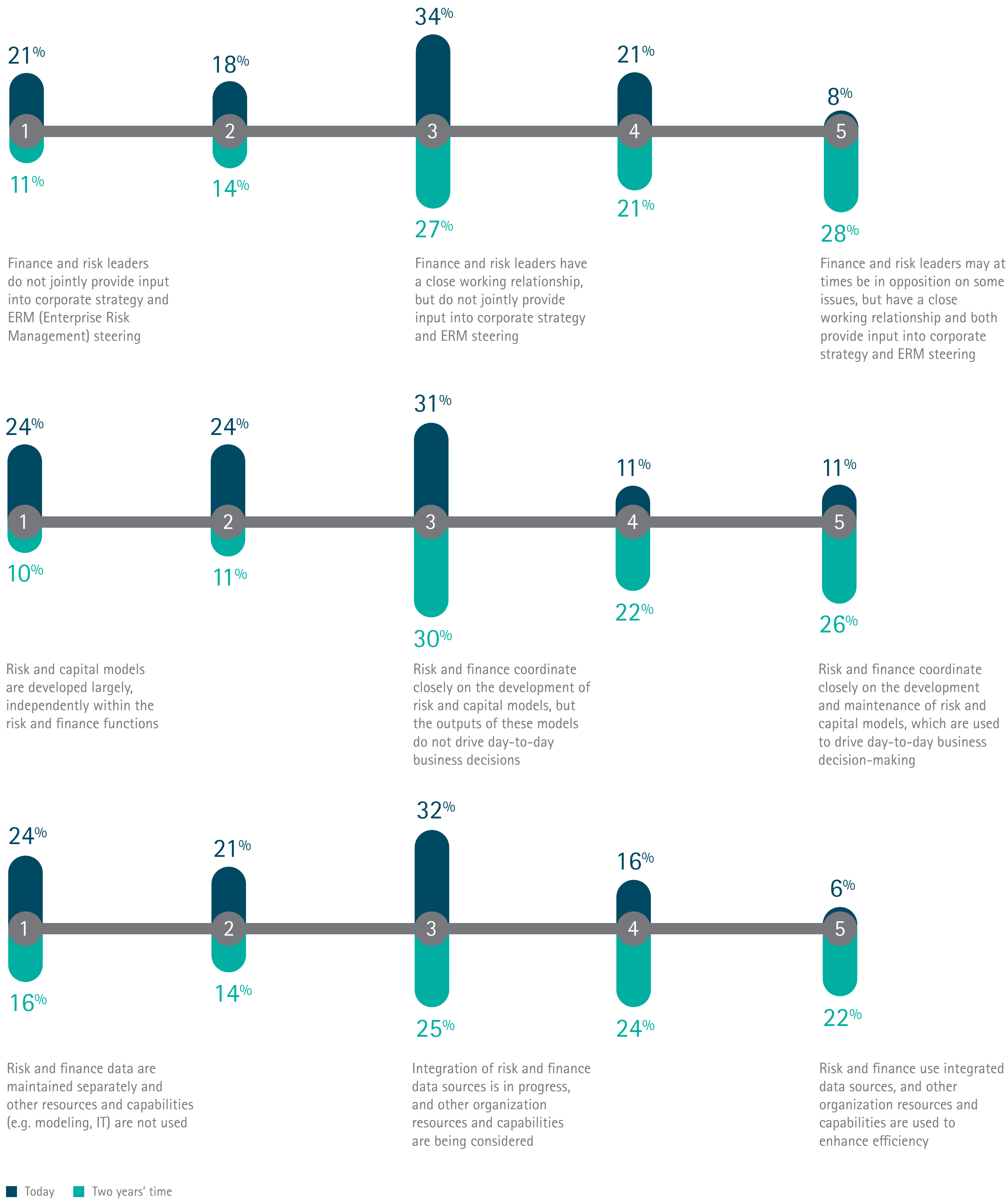
"

We are constantly looking for emerging risks. First you want to understand it, so you read a lot, you talk to everybody. You try to put together a dashboard so everyone in the firm can see it. You don't know how to monitor it, but at least you try to understand it and you try to push that information throughout the organization. Then you start getting some metrics and a framework. Once we understand a risk well enough that we can reduce it to a limit or a report or a monitor, we're going to hand it off to another group that's staffed and set up to do the rigorous daily monitoring that we need."

Aaron Brown, Chief Risk Manager at AQR Capital Management

Figure 7. Which of the following statements best describes the institution's stage of maturity in terms of the relationship between risk and finance?

Please indicate where the institution's risk function currently performs on each scale using scores between 1 and 5. Using the same scale, please also indicate a target rating the risk function is to achieve within two years.



Note: Due to rounding, total may not equal 100 percent
Source: Accenture 2015 Global Risk Management Study – Capital Markets respondents

Priority 2

Effective operational risk management is key to delivering on the next wave of business growth

Capital markets firms are increasing their focus on operational risks, particularly those related to technology evolutions such as digital, big data and social media. More than eight in 10 capital markets respondents (82%) say that emerging risks, such as cyber and social media, account for more of the CRO's time than ever before.

While digital operating models bring with them dangers, they also create opportunities. For example, real-time indicators have immediate applications for today's operations – within an investment bank, say, they might facilitate intra-day monitoring of key risk indicators ranging from value-at-risk to counterparty credit limits. It is also possible to overlay these indicators with new digital delivery mechanisms, such as mobile dashboards and smart technology alerts.

"These tools will be invaluable to capital markets organizations," says Aaron Brown, "helping them to measure new risks in new ways and, eventually, to automate part of the risk management process to free up resources ready for the next threat."

Operational risk is not simply the next item on the to-do list. As capital markets firms seek out new sources of sustainable growth, operational risk management should be a key component of the agenda. Institutions need "guardrails", or parameters, to protect their investments, particularly as they involve unfamiliar new risks around cyber, data and digital.

Getting access to more and better data will be a key factor in enhancing operational risk management. "Everyone knows data is getting more and more important but when people speak about KPIs, they're typically based on internal data," says Enrique Dick at Allianz Global Investors. "To tackle the operational risk aspect, I think you need external data too and while every firm is struggling with internal data, the use of external data is even less mature."

A good example is social media, where research suggests that 71% of respondents are concerned about the potential risks, yet 59% have no formal risk assessment plan in place to help manage this tension.[6] This is a problem. As Accenture research points out, "reputational risk management is a huge opportunity for financial services companies to improve their business."[7]

At the same time, it is essential to get the balance right. Too much emphasis on controls and administration can crush innovation and limit growth – and lose risk its seat at the table in the process.

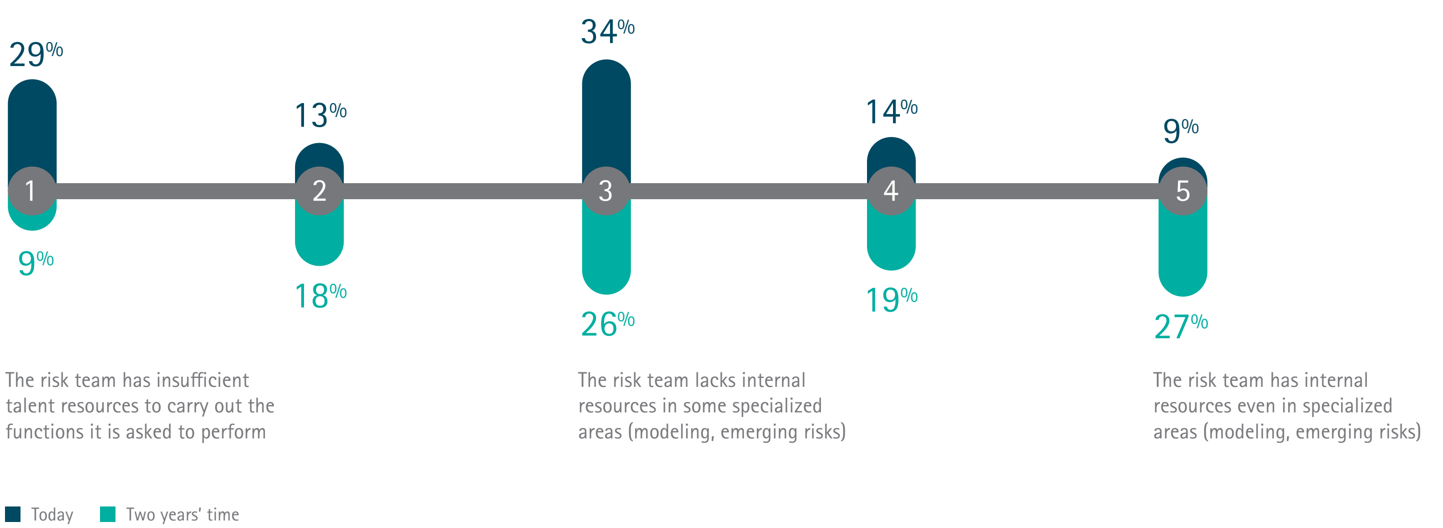
Priority 3

New investments in talent required

Many capital markets institutions are struggling to keep pace with the need for highly specialized skills and expertise in the risk function. A war for talent looks set to intensify. Currently, fewer than one in 10 (9%) capital markets respondents to the Accenture 2015 Global Risk Management Study say their risk function has the internal resources it needs in specialist areas such as modeling and emerging risks. Even in two years' time, less than three in 10 (27%) have realistic hopes of being in this position (see Figure 8).

Figure 8. Which of the following statements best describes the institution's stage of maturity in terms of talent and capabilities?

Please indicate where the institution's risk function currently performs on each scale using scores between 1 and 5. Using the same scale, please also indicate a target rating the risk function is to achieve within two years.



Note: Due to rounding, total may not equal 100 percent
Source: Accenture 2015 Global Risk Management Study – Capital Markets respondents

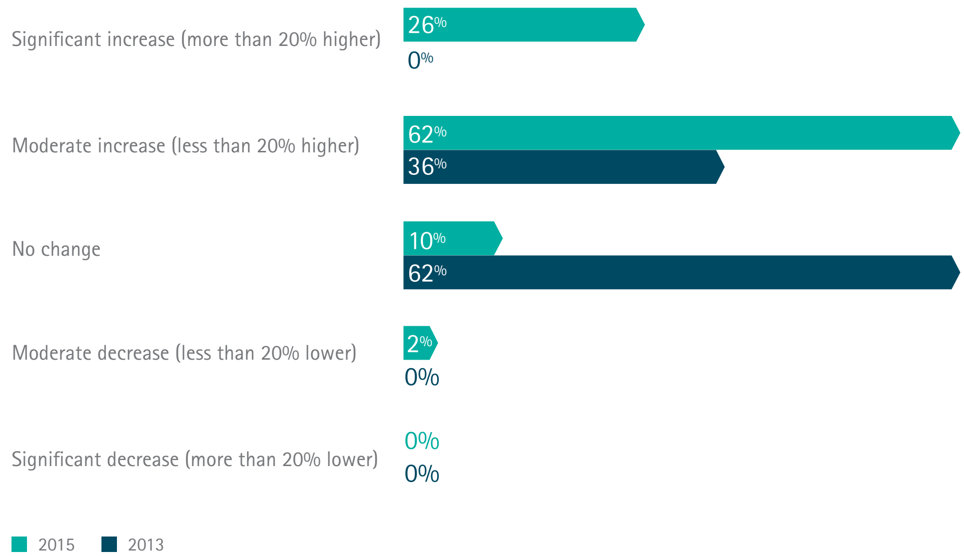
Most of these organizations are investing heavily in risk management capabilities and expect to continue doing so. Almost nine in 10 (88%) capital markets respondents say they plan to increase the level of investment in risk management capabilities in the next two years – one in four (26%) say they plan a significant increase (see Figure 9).

Finding the right people, however, will not be straightforward whether recruiting externally or training from within the company. "Good risk managers are not easily available in the market," says the senior risk professional at a Japanese securities firm. "Nor are good training courses – we have to do it on a one-by-one, individual basis."

Meanwhile, the range of experience required by modern risk functions continues to broaden. Over the past two years, our capital markets respondents have invested in a range of different skills, including security specialists, business analysts, fraud experts and cyber risk experts (see Figure 10).

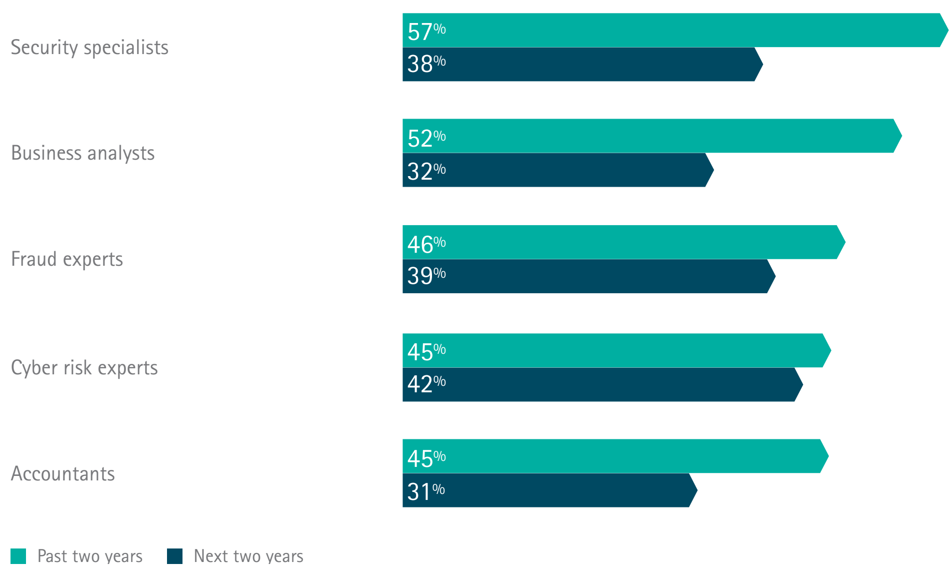
"A lot of talent challenges come from the fact that we're trying to do complex things quickly," says a senior risk professional from a major financial institution. "Small differences in the level of available experience and competence can potentially have big differences in the overall performance of the program."

Figure 9. What change is expected to the total level of investment in risk management capabilities in the next two years?



Note: Due to rounding, total may not equal 100 percent
Source: Accenture 2015 Global Risk Management Study – Capital Markets respondents

Figure 10. What types of specialists have you recruited or plan to recruit to the risk function?



Source: Accenture 2015 Global Risk Management Study – Capital Markets respondents

Certainly, despite the recruitment drive, gaps remain in certain areas. Fewer than four in ten capital markets respondents say they have the skills required to a great extent in areas including social media; modeling; forecasting and data management to a great extent (see Figure 11).

An additional challenge for CROs is that, as well as better specialists, they need people with broader commercial knowledge. Building closer relationships between risk management and other functions will depend on the ability to find risk professionals who understand the business's commercial imperatives.

One option is to move towards a more embedded approach to risk, or at least towards more flexible career paths. For example, cross-staffing – moving people from risk management to the business and vice versa – can be a powerful lever for spreading risk culture throughout the business while simultaneously creating greater commercial acumen in the risk function.

As risk management's profile within the organization grows, it will become a more attractive function for ambitious managers. We believe that it will be important both to encourage more people to serve stints in risk and to develop rewarding and engaging career paths for risk professionals, rather than simply focusing on recruitment as a way to plug talent gaps.

Figure 11. To what extent does the risk management function have talent with the following types of skills? (Represents percentage with talent to a great extent)

Source: Accenture 2015 Global Risk Management Study – Capital Markets respondents

"

I'm spending much more of my time explaining what risk can do. I want people to understand better how we can support the business."

Enrique Dick, Head of US Risk Management at Allianz Global Investors

Such an approach will also help with retention. If risk professionals leave, it may be because they feel they are not part of the action. Institutions should create an environment that gives them the opportunity to stay close. While talent recruitment is a priority for CROs, so too should be developing a long-term plan for retaining and developing that talent.

Priority 4

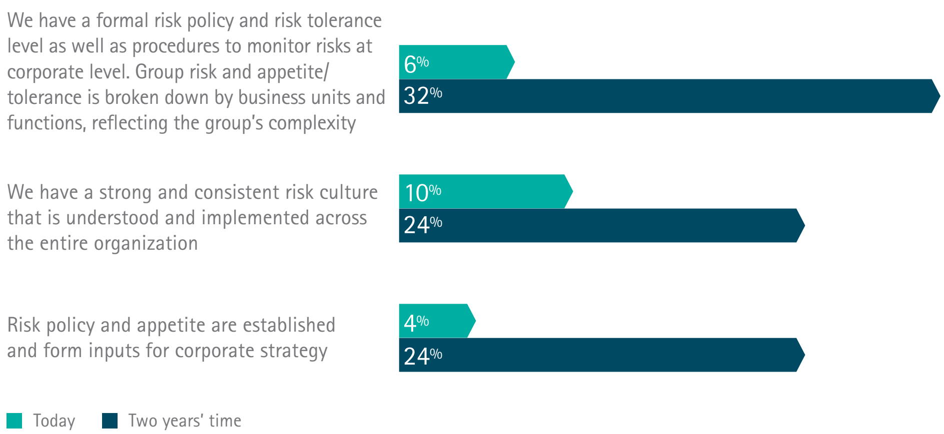
A consistent risk culture capable of withstanding disruptive change to become part of the fabric of the institution

Too many capital markets institutions are struggling to embed a consistent, enterprise-wide risk culture, appetite and policy. All too often, risk exists in silos and is inconsistently applied. Risk management needs to be embedded, not isolated.

Just 10% of surveyed capital markets institutions say they have a strong and consistent risk culture that is understood and implemented across their entire organization – and even in two years' time, fewer than one in four (24%) expect to have reached this level of maturity (see Figure 12). Given the huge focus on the importance of risk culture, this is a disappointing finding. In our view, it is also a clear sign that capital markets institutions should be doing more to advance their risk cultures up the maturity curve.

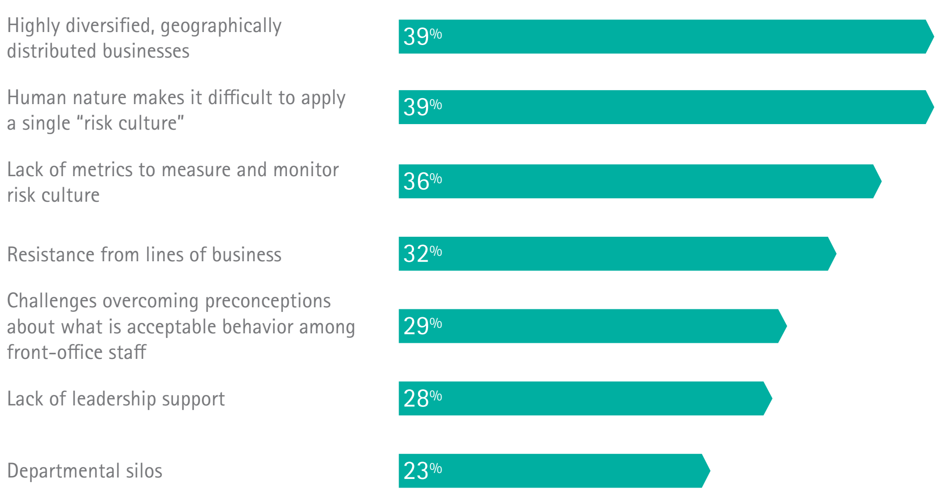
Capital markets respondents do, however, cite numerous obstacles to developing a consistent, organization-wide risk culture. Key among them are the highly diversified, geographically distributed nature of their businesses, human nature, and a lack of available metrics to measure and monitor risk culture. Resistance from lines of business is also cited as a concern (see Figure 13).

Figure 12. Which of the following statements best describes the institution's stage of maturity in terms of risk culture? (Represents percentage selecting the most mature models)



Source: Accenture 2015 Global Risk Management Study – Capital Markets respondents

Figure 13. What are considered the main obstacles to embedding a consistent, organization-wide risk culture?



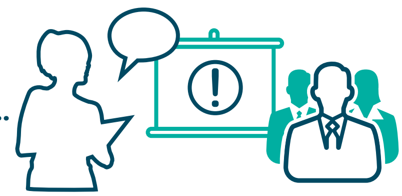
Source: Accenture 2015 Global Risk Management Study – Capital Markets respondents

At the same time, for a risk culture to be accepted, it should balance risk and reward. In our view, capital markets institutions should consider how they can align risk management's goals and objectives with those of the wider business. By improving communication about risk, and connecting risk and business teams throughout the organization, risk and the business can work alongside each other to develop a better understanding of risk and return trade-offs.

For example, a senior risk professional from a major financial institution describes how his organization is using compensation to motivate its employees to become more risk-aware. "We have rolled out a compensation structure across the whole company," he explains, "which gives everyone common objectives around risk transformation. Otherwise, there's a risk that people within the organization will just pay lip service to the changes you're trying to implement. They'll agree with you, but then just go back to doing what they've always done."

Building a sustainable risk culture

Some organizations are working hard to embed risk culture across the business, starting with a concerted effort from the board. "An effective risk culture depends on the tone from the top – and on constant reinforcement," argues Michelle Oroschakoff of LPL Financial. "Our senior management team is fully behind this and that is vital to making people take notice."



Michelle Oroschakoff's approach has been to ensure that, from the CEO down, LPL's executives take every opportunity to talk about risk and compliance alongside strategy and growth. In addition, she and her team speak at every company event they possibly can. Risk metrics, such as complaints about advisors and issues with fraud, are also monitored closely.

This does not mean that risk cannot support growth initiatives. Rather, consistent risk policies and an organizational structure that integrates the risk management function will help the business identify the right projects for its risk appetite while avoiding commitments to potential "blind alleys".

"Getting risk management involved early helps leverage management time by avoiding spending time and resources on initiatives before assessing risk issues." she says.

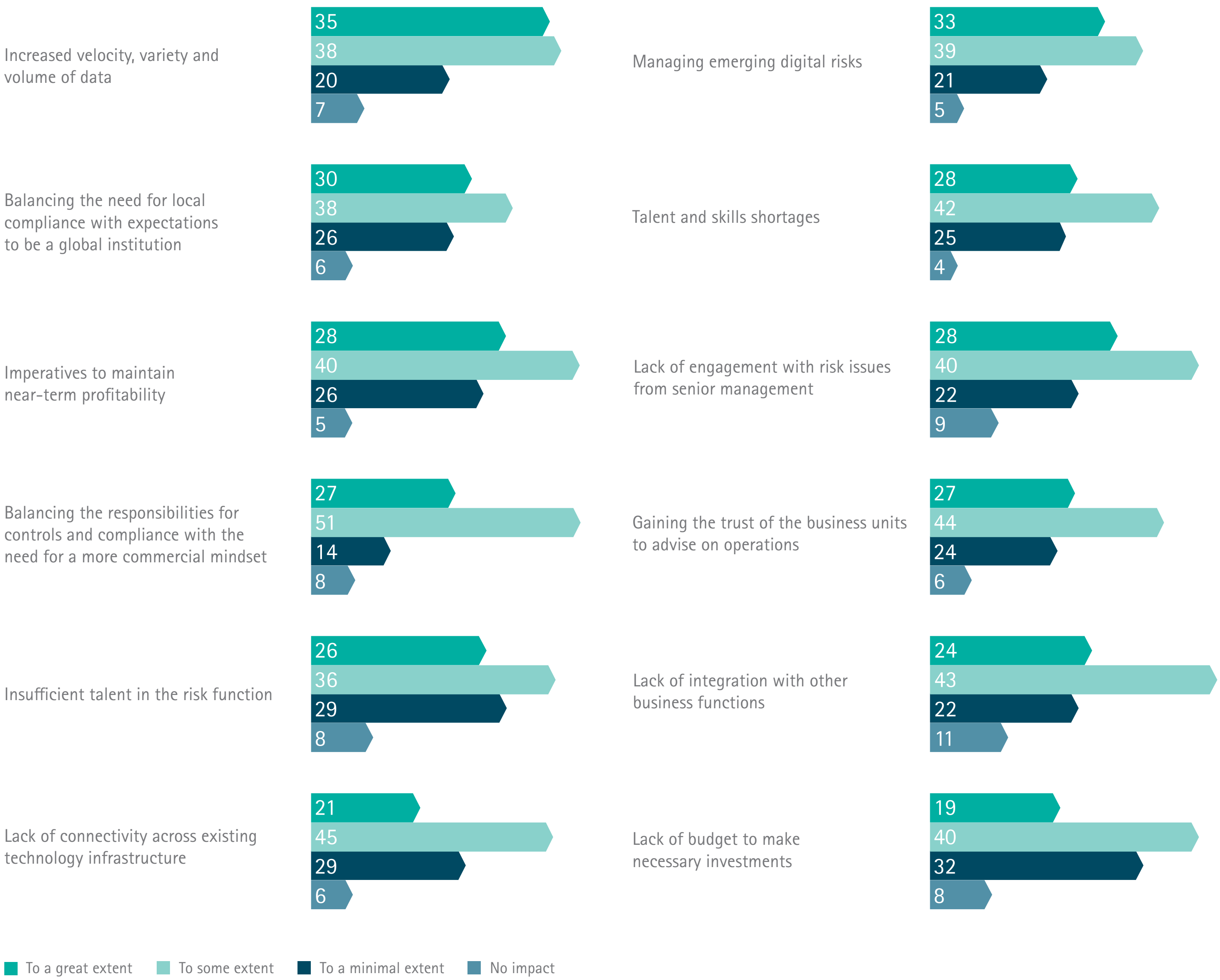
The Risk Landscape

2005	2015
Decisions informed by past events	Looking forward, with "next day" thinking
Risk only outlook	Recognizing risk AND inherent opportunity
Focused on credit, market and operational risk	Aware of a growing range of emerging risks
Narrow definition of operational risk	More comprehensive definition of operational risk
Clear demarcation between three lines of defense	Three lines of defense, with fluid interaction embedded in the business
"Left brain" – quantitative; analytical approach	"Left AND right brain" – creative, innovative understanding
Prioritized control and prevention	A balance of control, prevention, and enablement
Tactical attitude: centered on day-to-day risks	Strategic awareness: focused on long-term business challenges
Spreadsheet-based management	Increasingly integrated data sources
Digital? What's digital?	Emphasis on digital risks and opportunities

Risk management in 2025

- Analytics now permeates decision making
- Rise of the Chief Risk and Return Officer
- Companies are exploring robotics and artificial intelligence to manage transactional risks
- Risk management is the career path to the C-suite
- Behavior prediction helps to effectively inform risk management
- Single data source drives reporting and analytics activities

Figure 14. To what extent do each of the following challenges impede the overall effectiveness of the organization's risk management function?



Note: Due to rounding, total may not equal 100 percent
Source: Accenture 2015 Global Risk Management Study - Capital Markets respondents

Priority 5

Keep data at top of the priority list

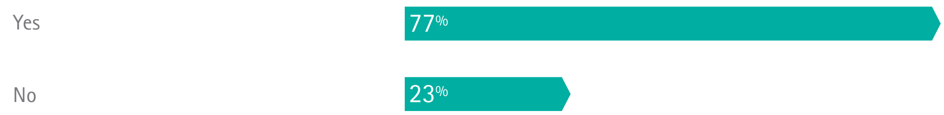
Capital markets institutions face many challenges as they seek to enhance the effectiveness of their risk management functions, but our respondents put the increasing velocity, volume and variety of data as among the top two challenges on their list (see Figure 14). Improving the accuracy and integrity of their data is a critical priority for CROs, yet just over a third say they have the talent and skills in place to do so to a great extent (see Figure 11).

This will change over time. In three-quarters of surveyed businesses, Chief Data Officers are already in place (see Figure 15). Moreover, the opportunity data affords is too valuable to miss. While data is currently most often used by risk management as part of an investigation into a problem that has already occurred, in the future it will also be employed as part of prevention systems. A more forward-looking, predictive approach will become the norm.

That will require greater sharing of data across the business to allow for pattern recognition and analysis. Imagine, for example, how a breach in the business's value-at-risk limits might be a particularly important red flag when observed alongside irregular trading patterns. With an early-warning system in place, compliance could help prevent unauthorized trading before it gets out of hand.

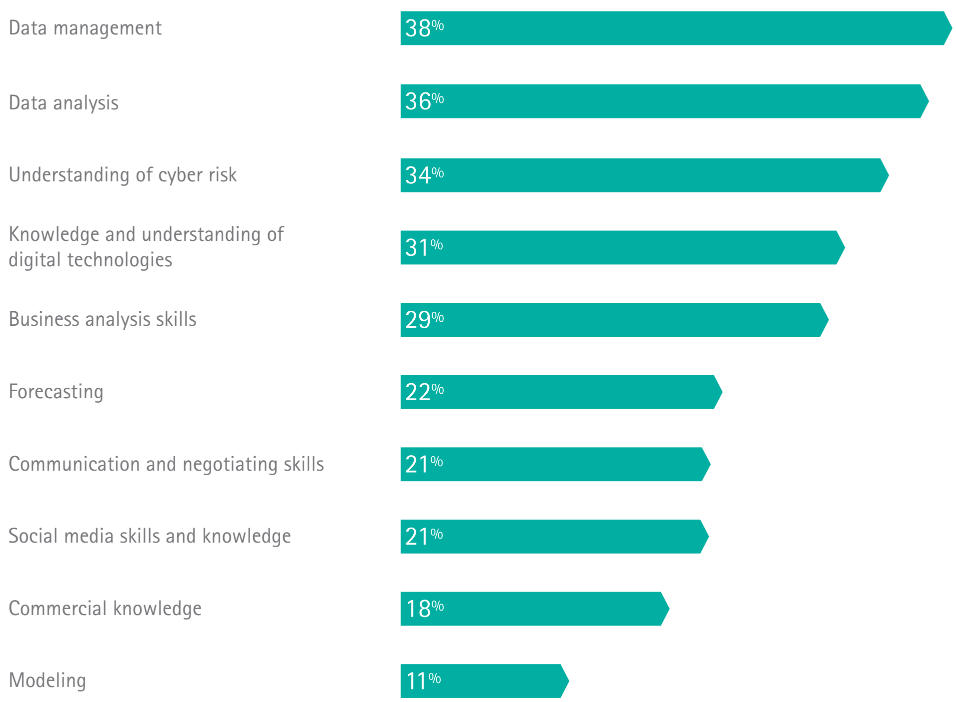
For now, however, capital markets institutions are rarely exploiting the full potential of data in a risk management context. This may partly be because CROs are struggling to find the right people to help them do so: data management and data analysis are rated as two key areas where skills and capabilities are most in demand (see Figure 16).

Figure 15. Does the organization have a Chief Data Officer (CDO) with oversight of risk/finance/customer-related data and analytics?



Source: Accenture 2015 Global Risk Management Study – Capital Markets respondents

Figure 16. Over the next two years, which of the following skills and capabilities will be most in demand for the risk management function?



Source: Accenture 2015 Global Risk Management Study – Capital Markets respondents

Figure 17. Describe the risk management function's use of data and analytics in addressing the following types of risk?

Note: Due to rounding, total may not equal 100 percent
Source: Accenture 2015 Global Risk Management Study – Capital Markets respondents

Priority 6

Accelerate the adoption of analytics within risk functions

Advanced analytics are becoming more widely used in the capital markets sector. There is more work to be done, however. Fewer than a third of surveyed capital markets respondents currently make extensive use of analytics tools as they attempt to address key risks (credit risk and liquidity risk are the areas where analytics are most likely to be employed extensively, see Figure 17).

Respondents admit that they have more work to do. Fewer than one in 10 (9%) capital markets respondents say that consistent and updated data is available to decision makers on an ongoing basis across the organization (see Figure 18). And, while operational risk is a key area for capital markets institutions, analytics tools have yet to make their mark here.

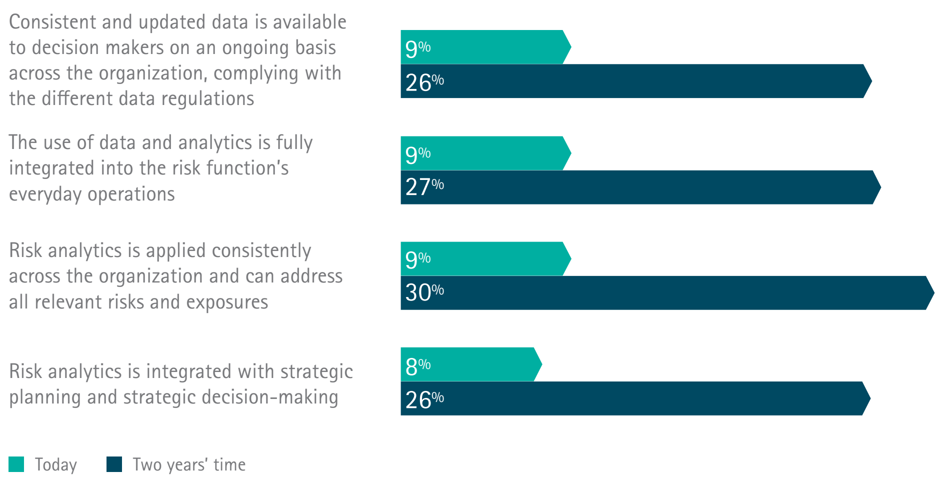
In our view, it is striking that so few respondent organizations have consistent and updated data available for decision makers. Some are, however, taking action to improve their systems. "We're spending a lot of time working on more standardized processes, high-quality data, better systems, and better controls," says a senior risk professional from a major financial institution. "We're reengineering basic capabilities to help us make big leaps forward."

Relatively low numbers of capital markets firms say that the use of data and analytics is fully integrated into their risk function's everyday operations and that risk analytics are applied consistently across the organization. Only 8% of the respondent group says that strategic planning and strategic decision-making make use of risk-based analytics tools.

These numbers are disappointing, but not entirely surprising. The adoption of analytics techniques in many industries has taken place first and foremost in customer-facing functions, rather than in the back office. In capital markets institutions, the priority has been to develop analytics solutions in areas such as investment risk, rather than operationally. Moreover, capital markets CROs are struggling to recruit people with the expertise to use these tools more effectively.

Now, however, is the time for CROs to redouble their efforts. Analytics can help risk management identify patterns of suspicious activities and behaviors rather than simply specific events. Enhanced automation increases efficiency, reduces costs and facilitates more robust monitoring. Tools are available to make use of both structured and unstructured data, including emails, social media and even phone conversations. With the right technologies employed, organizations may be in a stronger position to identify and manage breaches.

Figure 18. Which of the following statements best describes the institution's stage of maturity in terms of use of risk analytics? (Represents percentage selecting the most mature models)



Source: Accenture 2015 Global Risk Management Study – Capital Markets respondents

Conclusion

Risk management has never been more important to the success of capital markets institutions. It can no longer be seen primarily as a "middle office" function that performs a controlling and reporting focused role. Instead, it should be viewed as a critical enabler of long-term profitable growth, balancing this set of responsibilities with an ever expanding role involving an already significant volume of baseline activities.

As the role continues to evolve, navigating through a backdrop of transformational industry change encompassing ongoing regulatory pressures and a shifting focus in business models and digital disruption will only help create additional risk-based challenges.

In our view, CROs in capital markets institutions cannot be passive bystanders to this change. In fact we see an opportunity for the opposite. They can take more active charge to help their organizations outpace competitors, rise above industry challenges and maintain their leadership position in the midst of new competitive threats.

Achieving this ambition, and retaining their seat at the table, will require CROs to work with the business and maintain a careful balance of risk and reward. They should actively engage to steer their organizations towards long-term sustainable profitability, reshaping or exiting lines of business that are no longer affordable for the capital required and accelerating support for those that will provide long-term competitive advantage.

This is a demanding to-do list for any CRO. It will require a highly efficient approach to dealing with the compliance and risk management agendas, as well as new resources and capabilities that move beyond the traditional risk management skillset. Deeper partnerships with the business can help break down divisions between front, middle and back office, and more flexibility to manage the three lines of defense in a rapidly evolving market can help create additional enterprise value.

Smarter use of technology will in our view play a critical role. Increased and targeted use of analytics and modeling can help risk managers in capital markets institutions make better use of scarce capital and allocate it to the right parts of the business. These tools can also help accelerate decision making, support consistency, increase automation and enable a more forward looking approach to risk management, rather than a reactive one.

These remain challenging times for CROs in capital markets institutions but, with the right ambition and the right resources, they can complete their transition to a role that considers both risk and return in a balanced measure to deliver sustainable value to the enterprise.

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About the Research

The Accenture 2015 Global Risk Management Study is the fourth edition of our study first published in 2009. It is based on a quantitative, online survey conducted by Longitude Research on behalf of Accenture between November 2014 and January 2015 among 470 senior risk management executives involved in risk-management decisions.

Participants came from the banking, capital markets and insurance industries with 150 respondents from Asia Pacific (32%), 170 respondents from Europe (36%) and 150 respondents from North America (32%).

We also conducted in-depth interviews in 2014 and 2015 with senior leaders from 50 leading organizations across regions. They provided supporting insights for our data-driven research, while presenting useful perspectives from companies in each industry.

This sector-specific capital markets report presents the insights and perspectives captured from 170 capital markets executives from the wealth management, asset management, and investment banking areas, including in-depth qualitative interviews with senior banking executives.

Financial Services Respondents

Company size	Total
Between US$1bn and US$5bn	235
Revenues over US$5bn	235
Total	**470**

Respondent Roles	Total
Chief Risk Officer	141
Chief Executive Officer	78
Chief Financial Officer	147
Chief Compliance Officer	28
Other C-Suite	76
Total	**470**

Capital Markets Respondents

Country	Geography	Total
Australia	Asia Pacific	50
China		
Hong Kong		
Japan		
Singapore		
France	Europe	70
Germany		
Italy		
Spain		
UK		
Canada	North America	50
USA		
Total		**170**

Company size	Total
Between US$1bn and US$5bn	86
Revenues over US$5bn	84
Total	**170**

Respondent Roles	Total
Chief Risk Officer	63
Chief Executive Officer	35
Chief Financial Officer	46
Chief Compliance Officer	11
Other C-Suite	15
Total	**170**

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